

A Survey of Privatization and Outsourcing Initiatives

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Summary

In this report, we survey selected recent initiatives on privatization, competition, and outsourcing in both government and nongovernment sectors. We draw from a variety of publications and reports by the Defense Science Board, the Commission on Roles and Missions, and the General Accounting Office, as well as CNA's prior work and the work of other research organizations.

Our results are summarized in a matrix, which is in the appendix. Initiatives are classified by type or predominant characteristic (e.g., competition, outsourcing, or privatization-in-place); by objective, which describes the goals of the initiative (e.g., cost saving, better business practices, or job preservation); and by function, which describes the predominant good or service provided (e.g., social services, base support, or equipment maintenance). Initiatives are identified also by government sector, that is U.S. military service, federal government, state and local government, international, or other proposed initiatives.

The Office of the Secretary of Defense (Program Analysis and Evaluation (PA&E)) asked CNA to identify lessons learned from past experience and new opportunities for increasing the private sector's support role throughout the Department of Defense (DoD). The first task was to crosswalk the commercial activity inventory into the ten PA&E infrastructure categories.¹

1. In addition to the discussion in the main text, we provide a matrix in appendix A and a database of privatization and outsourcing initiatives in appendix B.

Use of the terms privatization and outsourcing

In our study, we use the terms privatization and outsourcing to refer to a broad range of activities or initiatives, which, in whole or in part, lessen the government's involvement in the provision of goods and services. We can characterize the spectrum of initiatives as direct outsourcing (contracting out), public/private competitions, privatization-in-place, public/private ventures or partnerships (PPVs), employee stock ownership plans (ESOPs), or government-owned, contractor-operated (GOCO) operations. We'll discuss specific examples of these initiatives later.

Much of the U.S. economy is market-based already, with state-owned enterprises comprising a small share of national income, relative to other countries [1]. In our survey, we've included some divestiture experiences from other countries because those experiences may be useful in considering future U.S. divestitures. The U.S. government has limited experience with full privatizations or the complete sale of government assets and operations. There are, however, many examples of partial privatizations (such as PPVs) and contracting out, and lessons we can learn from those experiences.

Distinctions between privatization and outsourcing

When ownership in government facilities is transferred to the private sector, we use the term "privatization" [2]. These ownership transfers may be full or partial. Partial privatizations are usually business partnerships between government and nongovernment sectors. These business relationships, public/private ventures or partnerships, reflect a joint investment. The government shares ownership of assets and/or operational responsibilities with the private company [3]. Full privatizations involve the complete sale of assets to a private company. An employee stock ownership plan represents full privatization. In an ESOP privatization, public sector operations are transferred to a private sector firm that has been formed by former employees [1]. One such example is the privatization of the Office of Personnel Management (OPM), in which former federal employees began a

new company that provides background investigation services.² This company operates as an ESOP. Other examples of privatization include privatization-in-place (PIP) and quasi-government corporations.³

When workload is shifted from in-house government providers to the private sector, but no transfer or sale of assets has occurred, we use the term "outsourcing" [2]. Outsourcing or "contracting out" reflects a decision by the government to remain fully responsible for the provisions of all services and management decisions.⁴ Other common outsourcing transactions include direct vendor delivery, leased buildings, hiring of trained staff, vouchers, and franchising.

2. For a detailed discussion of the OPM privatization, see [2].

3. Privatization-in-place allows the labor force to stay "in-place" in the particular facility when ownership changes. Quasi-government corporations are formed by the government when there is no interest in the private sector market. See [4] for more details.

4. The question is whether the service can be more effectively procured through in-house or contract sources. Recent research [2] suggests that management efforts to improve in-house productivity and accountability and to motivate employees to be more customer oriented are severely limited without competition. See [5] for detailed discussions of competition (OMB Circular A-76).

Overview of supporting evidence

The debate continues as to whether use of the private sector really lowers cost. Some opponents say that outsourcing and privatization actually increase costs [2], but experience argues the opposite. Here are some examples that confirm that using the private sector often results in lower costs, particularly when competition is involved. In addition to cost savings, personnel are often “freed up” to perform their essential tasks, thereby increasing overall productivity. For an overview of federal experiences in the defense department, see [6] and [2]. Some specific examples follow (taken from the appendix).

The Logistics Civil Augmentation Program (LOGCAP) contract with a Houston-based corporation, Brown & Root Services, has saved the Army millions of dollars. Most recently, Brown & Root provided logistics services at a base in Bosnia. These services included basic life support, engineering, and maintenance work for Operation Joint Endeavor. By having a contractor do this work, the Army saved \$140 million. The company hired about 6,700 workers to perform the tasks that would have required 8,500 troops. Freed from much of the logistics responsibility, regional commanders could have more troops available for combat or humanitarian operations. Also, expensive airlift could be used to transport more combat troops and fewer logistics troops. The Army began this initiative in 1992, by awarding a one-year contract with one-year options. LOGCAP's previous five activations were for operations in Somalia, Haiti, Saudi Arabia and Kuwait, Italy, and Rwanda. Competition remains fierce for the LOGCAP contract. In 1992, 37 companies were interested; 24 attended the preproposal conference; and 4 submitted bids. Political constraints, and a lack of money, people, competition, and planning, may hinder the program in the future.⁵

5. For additional information, see appendix B.

The Public Service Electric & Gas (PSE&G) Company in New Jersey reports that by contracting its recycling responsibilities to another firm, it is saving money and employee time [7]. State law requires the company to recycle at least 60 percent of its nonhazardous waste, and PSE&G employees were spending a great deal of time separating materials. Now a private company separates PSE&G's wood, paper, metals, soil, and asphalt. The manager of resource recovery said that "source separation is very labor-intensive—this frees our employees to do more of the things we're in business to do. We can focus on more high-value activities" [7].

The private recycling company operates as a "material recovery facility" and under New Jersey law, is allowed to charge lower fees than landfills—\$70 to \$75 per ton compared to \$130 per ton for disposal at a landfill or transfer station. The company can operate at those low rates because its recycling is mechanized and it has established markets for the processed materials. By using the outside contractor, PSE&G saves at least \$500,000 per year and this does not count the savings in labor. PSE&G has consolidated disposal for the whole company and put the entire job out to bid, instead of paying contractors to handle the work at each site separately. With a bigger block of business to offer, PSE&G attracts better bid prices.⁶

In Chicago, towing crews could not keep up with the abandoned vehicles that littered the street and so, in 1989, the city government offered the business to neighborhood companies. The private sector companies paid the city \$25 per vehicle and then sold the vehicles for scrap. Thus, Chicago turned what had been a resource drain into an opportunity that returned \$1.2 million to the city. In another case, the city found that competition creates incentives that improve the performance of public managers. The city government hired private contractors to pave portions of the city streets and gave the crews incentives to improve their performance. Soon the crews began to compete "to see who could do the job better and faster" [8].

6. For additional information, see appendix B.

Recent Government reports concerning privatization and outsourcing

The following sections highlight the main issues raised by two groups that support privatization and outsourcing—the Commission on Roles and Missions and the Defense Science Board. We also review several testimonies from the General Accounting Office which have provided insight on specific initiatives.

Commission on Roles and Missions

The Commission on Roles and Missions was created by Congress to ensure that the Armed Forces reallocate its roles and missions to ensure that the nation's military forces are prepared for the challenges ahead [9]. The Commission made recommendations in three broad areas: military roles and missions, civilian management and support of the Department, and a process that would allow adjustments to meet future challenges.

With regard to the allocations of functions, the Commission's report clearly states that government employees perform work that could be done as well in the private sector.⁷ The Commission was confident that greater use of the private sector will lower DoD support costs and improve performance. DoD reports show that civilians are performing work that is comparable to the work being done throughout DoD. This has convinced the Commission that the private sector can provide the manpower and the expertise needed to do DoD work. The reports also show that the best way to get efficient and cost-effective support is through "competition."

7. See [9] for examples of the relevant commercial activities.

The Commission's recommendation was to "outsource all commercial-type support activities." The Commission also supported the idea that "the government should not compete with its citizens." Thus, all DoD commercial activities, as well as any new needs that may arise, should be outsourced to the private sector. The Commission agrees that the government must retain certain "core" or "inherently governmental" and specialized functions in order to protect the public interest.

Defense Science Board

The Defense Science Board (DSB) Task Force on Outsourcing and Privatization concerning modernization ran from October 1995 to April 1996 and addressed the growing concern that the U.S. military may not be able to maintain superiority in the coming century. Since the end of the Cold War, DoD funding for equipment modernization has declined steadily, and, in the future, defense budgets are not likely to increase and may decline. Nevertheless, DoD maintains a vast in-house support infrastructure to house, train, equip, and manage its fighting forces. This infrastructure consumes a large and growing share of DoD resources.

The consensus of the Task Force was that DoD must shift more of its resources from support to procurement in order to increase funding for new weapon systems and technologies. The Task Force believes that an aggressive DoD outsourcing initiative could generate savings of \$7 to \$12 billion annually by FY 2002—money which could then be used to buy new equipment [10].

The Task Force suggested several components to an outsourcing strategy for reaching these goals. One is to outsource all support functions (excluding "core" functions) that can be performed cheaper and/or more effectively by the private sector.⁸ A second is to rely less

8. Some of the services that private vendors can easily provide include personnel support services; software development/maintenance; classroom training—weapons systems maintenance and individual skills; housing; civil engineering; base-level supply/materiel management; primary pilot training; and transportation, including household shipments.

on the A-76 process and public/private competition as primary outsourcing tools. Third is to focus more on large, complex business areas involving large numbers of government personnel. Fourth is to remove statutory and institutional obstacles to outsourcing. Finally, DoD needs a detailed implementation plan complete with targets, milestones, and strategies that will hold managers accountable for meeting outsourcing objectives.

General Accounting Office

Reviews of several GAO testimonies have provided additional insight into the privatization/outsourcing debate. The subject of one testimony was the potential effects of more extensive airport privatization. The private sector plays a major role in operating and financing U.S. commercial airports. In fact, private companies deliver most airport services. GAO found that airports operate more efficiently when the private sector is involved.

GAO officials testified that the effects of more airport privatization are hard to predict because much of the outcome depends on how privatization is implemented [11]. If sale or lease proceeds are not bound by federal restrictions on revenue diversions, then states and municipalities that own the airports could receive millions of dollars in proceeds. The effect of privatization on airlines and passenger costs depends on whether the fees airports charge to airlines continue to be regulated and whether privatized airports have access to federal grants and tax-exempt debt. How privatization affects the federal budget is contingent on whether private airports have access to tax-exempt borrowing and whether privatization leads to an overall reduction in funding for federal airport grants.

GAO testimony also addressed the debate over public-private competition and defense depot maintenance. One issue concerned the savings that DoD anticipates from privatization of depot maintenance activities. DoD's policy report signals a clear intent to shift work to the private sector when readiness, sustainability, and technology risks can be overcome. The testimony stressed the importance of effective

management in this process. The present depot infrastructure is not being used to capacity so GAO believes further downsizing is necessary.

Recent savings have resulted from competition rather than privatization. According to GAO, the competitions involved activities that readily lend themselves to private sector competition, activities such as family housing, real property and vehicle maintenance, civilian personnel administration, food service, security and law enforcement, and other support services. This work attracts many competitors from the private sector because it involves simple, repetitive tasks requiring low-skilled labor. Also, competitors do not need much upfront capital to enter the market.

The GAO and the Office of Management and Budget (OMB) estimate that competitive contracting saves an average of \$9,000 per year for each government position that is replaced. Other sources say that the government could save as much as \$9 billion a year by contracting out the roughly one million government positions currently involved in the provision of "commercial" services [12].

GAO officials also testified that privatizing without public-private competition and/or privatizing into a noncompetitive environment are not likely to result in the expected savings. Also, a reasonable basis for comparing public and private performance is essential. Privatization of depot maintenance must allow for the evaluation of economic, readiness, and statutory requirements that pertain to individual workloads.

Outsourcing and privatization strategies

The benefits of privatization and outsourcing are clear, and there appear to be no limits to the type of government activities that would benefit from these processes. In the United States, many cities and local governments used such initiatives to improve efficiency, increase competition, and reduce expenditures. The question is—what strategy will meet the need in the most effective way? In other words: What type of initiative will best serve the purpose? What goals and objectives are being pursued? What services and functions can be competently provided? Can the obstacles be overcome?

Now let's look at our survey of outsourcing and privatization initiatives to get a feel for some of the strategies that are being used. The matrix in the appendix provides a more extensive catalog.

Types of initiatives

There are many types of initiatives, including several new components of strategies recently developed to meet specific needs. One example is privatization-in-place (PIP). This component has been used for military bases targeted for closure. Another popular component is the formation of business partnerships, or public/private ventures (PPVs), between the public and private sectors. Other initiatives involve components of competitions, contracting out agreements, and employee stock ownership plans. We review several of these components in the following paragraphs.

The city of Indianapolis was able to preserve jobs by taking over the Naval Air Warfare Center (NAWC) from the Navy. The privatization is the largest and most complete privatization of a U.S. military facility ever. Hughes agreed to provide stable employment for the existing work force. Employees are guaranteed wages and benefits that are as

good or better than those in their government package. The privatization is expected to bring in 700 new technical leasing jobs and will require minimum investments in training for NAWC employees [2].

The Air Force is privatizing two Air Logistics Centers (ALCs). A major portion of the depot workloads at both ALCs has been declared eligible for competition in the private sector. The workloads must be competed in public/private competitions in compliance with Title 10 USC, Section 2469.⁹ The competitions will be executed through two contracts—a study contract and a performance contract. The performance contract will be used as the criterion in the selection of the one offeror (public or private) whose proposal offers the best value for the Air Force. The transfer must be done in a way that minimizes risk to missions readiness and impact on the community. Best value will be determined by evaluating environmental, performance risk assessment, cost, and technical aspects of the proposals.

The Army's Letterkenny Army Depot has formed a partnership with United Defense and the General Dynamics Land Systems Division. Under the M109A6 Paladin Program, the two facilities will convert M109A2/A3 Howitzers into Paladins. Because the two facilities are co-located, it will be easy to transfer materiel from one facility to the other. This factor alone is expected to save \$19.7 million over the life of the program [13].¹⁰

Goals and objectives

Outsourcing and privatization initiatives have many common goals and objectives. Included on the list are business expansion and better business practices, as well as cost savings. In a number of the examples, such as the Kelly Air Force Base privatization, public/private competitions, the main objective is cost savings, but contractors are

9. More details are in appendix B.

10. Also, Anniston Army Depot has joined with GDLS to modernize the CONUS Contingency Force and training base with M1A2 tanks by the end of the decade.

offered an incentive to find "long-term" commercial work. This is part of the government's effort to phase down defense activity and increase commercial business.¹¹ Similarly, McClellan Air Force Base plans to create a comprehensive high-tech industrial park and obtain specialized equipment for both DoD and commercial work.

Privatization and outsourcing can also be a means of meeting service needs in a period of declining resources. For example, because the Army cannot bring its utility systems up to industry standards, it is now working with a private provider at five Army installations.¹² The contractor provides the design, capital investment, construction, operation, and maintenance for new energy-efficient equipment, products, or systems. The savings are then shared between the government and the contractor.

Several privatization initiatives make it possible for ownership to be offered to small shareholders. The type of initiative has become very popular in other countries. One example is Britain's sale of British Telecom.¹³ Over 90 percent of British Telecom's employees bought shares in their own company. Many benefits resulted such as changed attitudes about small shareholder ownership, and improvements in the performance of telephone services. On a smaller scale, we find similar proposals in the United States. For example, the Office of Personnel Management (OPM) has set up an employee-owned company that will provide specialized services, background investigations, and training. Operating under an employee stock ownership plan (ESOP), the company will offer its employees stock ownership, performance incentives, and the opportunity for financial growth.¹⁴

11. See Kelly Air Force Base privatization in appendix B.

12. See U.S. Army Forces Command (FORSCOM) privatization in appendix B.

13. See British Telecom in appendix B.

14. See Office of Personnel Management under Federal Government in appendix B.

Services provided through various initiatives

The range of services and functions common to outsourcing and privatization initiatives vary enormously. They include everything from janitorial services to entire management structures. The U.S. military has chosen to limit the range of outsourcing projects to those services that are not considered to be "core" to its operations. This still leaves thousands of services and functions open to outsourcing and privatization. Services that are generally available in the private sector are referred to by the military as "commercial activities." According to defense agency reports, DoD devoted 850,000 full-time equivalents (FTEs) to commercial-type activities in 1994.¹⁵

In the following section, we highlight several initiatives, emphasizing the services and functions they provide. Additional examples are in appendix B.

In the Hughes/NAWC privatization, which we discussed previously, Hughes plans to perform both commercial and defense work in the facility including the continued development of electronic devices for aircraft, submarines, and satellite ground stations. As we also discussed, depot work at McClellan Air Force Base that is eligible for public/private competition includes work currently assigned to SM-ALC for aircraft (A-10s and KC-135s), electrical accessories, instruments and electronics (portions need not be transferred to the Army), software, hydraulics, and backshop/manufacturing.

DoD established child care centers in various locations including the Pentagon for children of its employees. The day care centers are owned and operated by private day care providers. The buildings in which the services are provided are on leased government land and have been privately financed. Users pay the provider directly. The provider guarantees that dependents of federal employees will have

15. Broad categories for these functions or commercial activities include social services, base maintenance, data processing, health services, RDT&E support, manufacturing/fabrication, intermediate maintenance, installation services, maintenance of real property, depot maintenance, education and training, and other nonmanufacturing [10].

priority in placement and reduced rates. Day care slots that are not needed for dependents of federal employees can be sold to users in the private sector. The center's equipment and furnishings are owned by a private contractor, who operates the center as a private enterprise and assumes all risk of profit or loss.

Whether to privatize depots is a common debate. The role of the depot is focused not so much on sustainment after a war starts but on day-to-day readiness. Depots can become centers for private sector work as well as defense work. For example, a paint/depaint facility will work on commercial aircraft as well as DoD aircraft. Three Air Force depots—Warner Robbins Logistics Center in Georgia, Oklahoma City Logistics Center in Oklahoma, and Ogden Logistics Center in Utah—will serve as “vibrant industrial centers” for commercial as well as defense interests. Privatization of depots can help maintain operations costs. By the end of this year, the Air Force is expected to issue several requests for proposals (RFPs) to further privatize its depots. The RFPs will include more performance-based criteria and commercial-style specifications. They will also seek longer contract periods, between 8 and 9 years, and will include incentives to ensure quality service over the long term. Also, the RFPs will seek more participation from small businesses and private suppliers of spare parts. The privatizations will ensure that the depots maintain surge capacity in wartime.

In the international arena, Britain awarded a contract to Hunting Aircraft to train Royal Air Force (RAF) and Navy pilots, yet another step in privatization of functions performed by the U.K.'s military services. Under the latest contract, Hunting will train RAF and Royal Navy student pilots at one combined facility. Hunting will operate the Joint Elementary Flying Training Squadron at RAF Topcliffe, in effect merging the separate RAF elementary flight training squadron, currently at RAF Swinderby, with the Navy's initial pilot training unit at Topcliffe. The company competed against seven other bidders, including British Aerospace and Oxford Air Training School, and offered to train on five different aircraft types. The Defense Ministry was seeking the most cost-effective proposal consistent with the services' requirements.

Conclusions

Budget declines and downsizing within the government seem to be inevitable. DoD, like many other organizations, has begun to restructure and redefine its goals and operations. There appear to be no limits to the type of government activities that would benefit from these processes.

New strategies and components are being developed to meet specific needs. Privatization-in-place may prove effective in some cases. Another strategic component which is growing in popularity is the formation of business partnerships and public/private ventures (PPVs), which will create and preserve jobs and also foster productive relationships between public and private sector owners. Competition appears to be the key element for success in most of these ventures.

Appendix A: The Matrix

Here, we present a matrix that summarizes the initiatives we surveyed in this study. We have classified the initiatives by type, objective, and function.

Type describes the predominant characteristic of the initiative. The types are as follows:

- Competitions (C)—These are initiatives that compete support functions either in-house (C-i), among external bidders (C-e), or both (C-e,i). Inherent to competition is the fact that workload is not guaranteed.
- Outsourcing (O)—These initiatives shift workloads and functions from in-house support to private sector providers without competition.
- Privatizations-in-Place (PIPs)—These initiatives change facilities from public to private ownership. This arrangement preserves jobs and may guarantee workload, although civil servants transition to contract labor.
- Public/Private Ventures (PPV)—Sometimes referred to as Public/Private Partnerships (PPP), in these initiatives the public and private sectors share the costs, risks, benefits, and profits.
- Employee Stock Ownership Plan (ESOP)—In these initiatives, the operation is transferred to a private firm owned by the employees who were former government employees.
- Government-owned, contractor-operated (GOCOs)—These are initiatives in which the government continues to own the facilities and equipment, but the management and employees become private. These are partially privatized entities.
- Asset Sales (A)—These initiatives involve the sale of equipment, facilities, and other resources.

Objectives describe the goals of the privatization or outsourcing initiatives.

- Balanced Budget (BB)
- Better Business Practices (BBP)
- Business Expansion (BE)
- Cost Savings (S)
- Consumer Satisfaction (CS)
- Defined Role of Government (DG)

Job Creation (JC)
Job Preservation (JP)
Modernization (M)
Political/Economic Ideology & Capitalism (IC)
Profit (P)
Workload Efficiency (E)

Function describes the predominant good or service provided to the operation through the privatization or outsourcing initiative.¹⁸

Social Services (SS)
Health Services (HS)
Equipment Maintenance (EM)
Base Maintenance (BM)
Research, Development, Test, and Evaluation (RDT&E) Support
Installation Services (IS)
Nonmanufacturing Services (NMS)
Education and Training (E&T)
Automatic Data Processing (DP)
Products Manufacturing (Pmg)
Property Maintenance (PM)

¹⁸ For codes and definitions of functional areas, see *An Examination of the DoD Commercial Activities (CA) Inventory Data*, by Angela L. King, Angela M. Rademacher, and R. Derek Trunkey, Nov 1996 (CNA Information Memorandum 471)

Table 1. Matrix of initiatives

	Type	Objectives	Function(s)
Initiative			
Military			
Air Force			
Kelly ALC/	PIP, C	BE, S, JC, JP, E	EM
MacDill AFB/Empire Systems Inc.	PPP	S, M, E	EM
McClellan ALC/	PIP	BE, S, JC, JP, M	EM
Newark AFB AGMC/Rockwell Int.	PIP	S, CS, JP, E	EM
Army			
Army Job Assistance Center	O	S, E, M	E&T
FORSCOM/Huntsville Division	PPV	S, M, E	IS
General Dynamics Land Systems	PPV	S, BBP, M, E	PMG
LOGCAP/Brown & Root	O, C	S, DG, JC, E	EM, IS, SS, HS
Medical Contracts	PPV	BE, CS, E	HS
United Defense	PPV	S, BBP, M, E	PMG
Navy			
Computer Sciences Corp. CA	PPV	BE, BBP, CS, M, E	NMS
Naval Ordnance Station Ky/Hughes	PIP, O	BE, M, E	EM,
NAWC/Hughes	PIP	BE, S, CS, JC, JP, M, E	EM
Federal Government			
A-76 Programs (All Services)	O	S, E,	All
Defense Logistics Agency	O	BBP, S, CS, E	HS, IS, SS
DOE Complex/Various contractors	O	BE, S, M, E	HS, RDT&E, IS
Fannie Mae and Freddie Mac	A	BBP, BE, CS, DG	IS
Federal Bureau of Prisons	O	BBP, BE, S, M, E,	SS
Government Services Administration	ESOP	BBP, BE, S, DG, M	NMG, PM
National Helium Reserves	A	BB, BE, S, E,	IS
National Rail Corporation (AMTRAK)	A, O	BB, BE, S,	IS
Naval Petroleum Reserves	A	BB, BE, S, DG,	IS
Office of Personnel Management	ESOP	BE, BBP, JC, JP	E&T, SS
Power Marketing Administration	A	BB, S,	IS,
United States Enrichment Corporation	A	BB, S, BE	IS
United States Postal Service	ESOP	BE, BBP, S, CS, E	IS
State and Local Government			
Dulles Greenway (Toll Road)	PPP	BE, CS, DG, M	IS, PM
Indianapolis International Airport	A	BBP, BE, S, CS, P,	PM, IS
Indianapolis Wastewater Treatment	PPP	S, M, P, E	IS
Other Initiatives			
801 & 802 Housing Programs	PPV	BE, S, E	SS, IS, PM
DoD Utility Systems	PPV	S, CS, M	IS
Maritime Prepositioning Program	PPV	S, E	EM, IS, PM
Naval Education/ Training Center (RI)	PPV	S, BE, CS, E	E&T, IS
Naval Submarine Base (CT)	PPV	S, BE, CS, E	IS
Pentagon Day Care Center	PPV	BE, S, CS	SS
U.S. Army Corps of Engineers (USACE)	PPV	S, BE	SS
International Initiatives			
British Telecom	A, ESOP	CS, DG,	IS, PM
French Aerospace Industry	PPV, A	BBP, BE, JP, DG, M, E	IS, RDT&E
U.K. Military Privatization	O	S, JC, M, P, E	E&T

Appendix B: Database of Initiatives

Here we provide a database of a variety of initiatives, summarized for quick review. We extracted the information from prior CNA research studies, book and journal reviews, government publications, media articles, and other reports.

For each initiative, we list the source of our information, as well as the type, objectives, and functions as listed in the matrix in appendix A.

Military

U. S. Air Force

McClellan Air Force Base

(Sacramento County, California)

1996–1998

Skywriter. Wright-Patterson AFB Ohio,
16 August 1996
Defense Week briefing report,
24 June 1996

Type:	Privatization- in-Place
Objectives:	Cost Savings
	Consumer Satisfaction
	Job Preservation
	Workload Efficiency
Function:	Equipment Maintenance

AGMC provides guidance-system repair services for the entire Air Force Intercontinental Ballistic Missile (ICBM) force, as well as inertial navigation system and instrument repair for 95 percent of all Air Force combat aircraft. AGMC also provides inertial navigator repair services for the U.S. Navy. When Newark Air Force Base was chosen for closure in 1993, the base employed about 11,700 civilian employees. About 700 of these will transfer to Rockwell International to continue to work on inertial guidance and navigation systems for Air Force missiles and aircraft; an additional 100 people will transfer to Wyle Laboratories, the contractor who now operates the meteorology laboratory at Newark. Every effort will be made to transfer all workloads and avoid any interruption in customer support and service. AGMC's privatization-in-place program will transition the current AGMC repair workloads while maintaining defense readiness of the

weapon it systems supports. AGMC will continue to perform the high-quality repairs that are being done at the facility, and will reduce weapon-system support costs.

Kelly Air Force Base
(near San Antonio, Texas)
1995-1996

Defense Week articles (5 August 1996)

Type:	<i>Privatization-in-Place</i>
	<i>Competition</i>
Objective:	<i>Job Preservation</i>
	<i>Job Creation</i>
	<i>Workload Efficiency</i>
	<i>Cost Savings</i>
	<i>Business Expansion</i>
Function:	<i>Equipment Maintenance</i>

Kelly Air Force Base hopes to have at least 21,000 good paying jobs by the year 2006. Another goal is to privatize all Air Logistics Center (ALC) work and transfer all property and equipment to GKDC. GKDC would then manage the land, facilities, and equipment.

Privatization-in-place would allow continued aircraft maintainance under two prototype contracts: one for painting and depainting of C-5s, and one for fuel accessories. Major business areas would include propulsion for C-5s and electronics for C-17s. Public/private competitions would be held, and contractors would be offered incentives to bring in "long-term" commercial work. Facilities would be owned/managed and leased to logistics contractors in an effort to eventually phase down DLA activity and expand commercial business.

Potential barriers to privatization include the 60/40 rule, the \$3 million threshold, and public/private competition.

McClellan Air Force Base
(Sacramento County, California)
1996–1998

Defense Week articles (5 August 1996)

Type:	Privatization-in- Place
Objectives:	Business Expansion
	Cost Savings
	Job Preservation
	Job Creation
	Modernization
Function:	Equipment Maintenance

At McClellan Air Force Base, a primary goal is to use privatization to maintain mission readiness. The program would aim to create new jobs and protect existing jobs. Through cost savings resulting from efficiency, competition, and profits, the privatized program would contribute to the regional economy and, by diversifying the economic base, should attract sustainable economic development.

Another goal is to create a comprehensive high-tech industrial park and obtain specialized equipment for both DoD and commercial work.

Cogeneration Energy Production Facility
(MacDill Air Force Base, Florida, and Empire Systems Inc.)
10 June 1988

Air War College Research Report:
Criteria for Developing a Successful
Privatization Project
AD-A217 523 1989

Type:	Public/Private Partnership
Objectives:	Cost Savings
	Modernization
	Workload Efficiency
Function:	Installation Support

The Air Force proposed to allow a third-party contractor to construct, operate, and maintain a cogeneration plant on MacDill Air Force Base in Florida. The base would buy electric power and thermal energy generated by the facility at a price below that which it currently pays to the commercial supplier, Tampa Electric Company. The cogeneration facility would generate the electrical power the base needs and would connect directly to the base's electrical system using

underground cabling. The decision to pursue the privatization solution was based on several factors. First, the current system could not ensure enough energy for the base. Second, the government's cost to construct a conventional electric-generation plant was prohibitive when compared the cost to build a cogeneration plant. Third a conventional plant would be roughly 22 percent less energy efficient and would not meet government goals to conserve energy and reduce utility bills. Over a 30-year life cycle, the privatization cogeneration solution was found to save \$104 million compared to the current system, and the government-owned-and-operated cogeneration alternative would save \$62 million compared to the current system.

U. S. Army

U.S. Army Forces Command (FORSCOM)

Type:	<i>Public/Private Venture</i>
Objectives:	<i>Cost Savings Modernization Workload Efficiency</i>
Function:	<i>Infrastructure Support</i>

The Army lacks the manpower and financial resources it needs to bring its utility systems up to current industry standards, and comply with increasingly stringent environmental laws. Using privatization, the Army can ensure reliable service despite declining resources. The private sector contractor, Energy Savings Performance Contracting (ESPC), Huntsville Division, has been designated as the Technical Center of Expertise for ESPC projects within the Army. The ESPC program was authorized by the National Energy Conservation Policy Act of 7 April 1986. Amended by the Energy Policy Act of 1992, ESPC is now called the Shared Energy Savings (SES) Program. The Huntsville Division has been awarded five performance contracts for U.S. installations including Fort McPherson, Georgia; Fort Stewart, Georgia; Fort Polk, Louisiana; Corpus Christi Army Depot, Texas; and Aliamanu Family Housing, Hawaii.

As the contractor, ESPC provided the design, capital investment, construction, operation, and maintenance for new energy-efficient equipment, products, or systems. Energy savings are then shared between the government and ESPC. ESPC projects can span periods of up to 25 years.

The Logistics Civil Augmentation Program/Brown & Root

Defense Week Vol 17, Number 29,
(15 July 1996)

<i>Types:</i>	<i>Outsourcing</i>
	<i>Competition</i>
	<i>Cost Savings</i>
<i>Objectives</i>	<i>Defined role of Government</i>
	<i>Job Creation</i>
	<i>Workload Efficiency</i>
	<i>Installation Support</i>
	<i>Social Services</i>
<i>Function:</i>	<i>Health Services</i>

The Logistics Civil Augmentation Program (LOGCAP) contract with a Houston-based corporation, Brown & Root Services, has saved the Army millions of dollars by performing logistics services at a base in Bosnia. The services included basic life support, engineering, and maintenance work for Operation Joint Endeavor. The work cost \$140 million less than if Army personnel had performed the tasks. Since November, the company has hired about 6,700 workers to perform tasks that would have required 8,500 troops. By using contractors, the regional commander has more combat troops available to serve in conflicts or humanitarian operations. Also, expensive airlift can be used to transport a greater proportion of combat troops.

The Army passed the regulation instituting LOGCAP in 1985. The program began in 1992, with a one-year contract with one-year options. The options have been exercised every year since, and the Army has saved money each time. LOGCAP's previous five activations included Somalia, Haiti, Saudi Arabia and Kuwait, Italy, and Rwanda. Competition remains fierce for LOGCAP. In 1992, 37 companies were interested, 24 attended the preproposal conference, and 4 submitted bids. Money, people resources, competition, and planning, as well as political constraints such as limits on the number of soldiers in theater, are potential obstacles to the program.

Army M109A6 Paladin Program with United Defense

Type: *Public Private Venture*
Objective: *Better Business Practices*
Business Expansion
Cost Savings
Modernization
Workload Efficiency
Function: *Product Manufacturing*

The Army will acquire 824 Paladins when M109A2/A3 Howitzers are converted under a partnership arrangement between United Defense (UD) and Letterkenny Army Depot (LEAD). Because UD and LEAD are co-located, the transfer of materials will be greatly simplified. The factor alone should save \$19.7 million over the life of the program. LEAD removes the traverse mechanism, disassembles the M109A2/A3 Howitzer, overhauls the chassis, and modifies it to the Paladin configuration. Watervliet Arsenal manufactures the cannon, and LEAD assembles the gun mount. UD assembles the reconditioned components, the overhauled and modified chassis, the new cab, the cannon, and the gun mount into an M109A6.

Anniston Army Depot (ANAD) and General Dynamics Land Systems (GDLS) Division

Policy Regarding Performance of Depot-Level
Maintenance and Repair for the Department
of Defense; Office of the Secretary of Defense
Report to Congress, March 1996

Type: *Public/Private Venture*
Objectives: *Better Business Practices*
Business Expansion
Cost Savings
Modernization
Workload Efficiency
Function: *Product Manufacturing*

The Abrams Upgrade Program involves a partnership between GDLS and ANAD to modernize the CONUS Contingency Force and training base with 1,079 M1A2 tanks by the end of the decade. ANAD disassembles the tanks, and GDLS receives the stripped hull, builds the new turret, and updates the hull.

Army Job Assistance Center

Type: *Outsourcing*
Objectives: *Cost Savings*
Workload Efficiency
Modernization
Function: *Education & Training*

The Job Assistance Center (JAC) program is contracted out. The contractor works with transition assistance and placement centers to help active-duty military who are leaving the services. Some related personnel and support functions are also contracted out. The goals are cost savings and efficiency. The existing Army staff was too small to handle the influx of users.

Army Helicopter Training

Type: *Outsourcing*
Objectives: *Cost Savings*
Workload Efficiency
Modernization
Function: *Education & Training, Installation Services*

The Army contracts out basic helicopter pilot training at Fort Rucker.

Army Family Medical Care

Type: *Public/Private Partnership*
Objective: *Consumer Satisfaction*
Function: *Social Services*

The U.S. Army has teamed with a private contractor to provide primary care services to eligible beneficiaries within specific areas of Northern Virginia. Primary care offices (outpatient clinics) have been established in civilian residential neighborhoods where there are high concentrations of military families.

U. S. Navy

Computer Sciences Corporation

(El Segundo, California)

sites:

San Diego, California (ACDS)
Point Mugu, California (NAWC)
Arlington, Virginia (NWSC)

Business Wire, 29 May 1996

Type:	Public/Private Venture
Objectives:	Business Expansion Better Business Practices Consumer Satisfaction Modernization Workload Efficiency
Functions:	Products Manufacturing Installation Support

Computer Science Corporation (CSC) supports the Navy's Advanced Combat Direction System (ACDS) under three separate contracts. Under the first, CSC provides hardware and software system design, architectural studies, and related integration services. Under the second, it provides engineering and technical services in support of the F-14A fighter aircraft upgrade program at the Naval Air Warfare Center-Weapons Division in Point Mugu, California. The third contract is a joint venture agreement with GRC International in Vienna, Virginia, to provide systems engineering and acquisition support services to the Navy's Space and Naval Warfare Systems Command in Arlington, Virginia.

CSC engineers and specialists in avionics systems, simulation, modeling, hardware, and software will team with Litton Guidance & Control Systems and GBL Systems Corporation to provide unique technological expertise in the design and fabrication of military avionics, components, and software. The first contract will have 4 option years, and there will be a 5-year follow-on contract for systems engineering and acquisition support services to the Navy's Space and Naval Warfare Systems Command in Virginia. The engineers and specialists will be assigned to CSC's Systems Engineering Division (SED), which operates a System Services and Technologies Center in San Diego. SED is the company's lead division in support of the Department of Defense. The Center's function has been to conduct prototyping and engineering of avionics equipment design.

**Naval Air Warfare Center (NAWC)
and Hughes Technical Services
Indianapolis, Indiana**

NAWC Indianapolis Reuse
Planning Authority,
22 December 1995

Type:	<i>Privatization-in-Place</i>
Objectives:	<i>Competition</i>
	<i>Business Expansion</i>
	<i>Cost Savings</i>
	<i>Job Creation</i>
	<i>Job Preservation</i>
	<i>Modernization</i>
	<i>Workload Efficiency</i>
Function:	<i>Equipment Maintenance</i>

The Hughes privatization will take over the existing and projected government workload at the Indianapolis NAWC. Hughes will hire most of the current NAWC-ADI employees, and to encourage retention, may give them some type of stake in the company. Hughes won the contract as a result of a competitive selection process, and at the end of the sole source period, the new company will face full-and-open competition.

Under this program, the Navy can retain the unique capabilities developed at the Indianapolis site that otherwise would have been lost. Initially, a small Navy detachment will be assigned to the site to perform transition tasks in support of the privatization effort. Over time, program requirements will determine whether any Navy personnel remain at the site.

An important objective is to continue to provide the same products, services, and access that NAWC-ADI currently provide to its customers. At a minimum, the new company must perform to present quality and cost standards and must minimize disruption to current customers. The program will be an integrated technical operation. Core electronics capabilities and engineering/ prototyping technical strengths will be retained in Indianapolis to support the Navy and DoD. Other government and commercial customers will share overhead costs with DoD and the Navy.

Naval Ordnance Station Kentucky/Hughes

"Privatization Key to Preserving Industry
and Job Markets" by Mark Walsh
Defense Week, 2 July 1996

Types:	<i>Privatization-in-Place</i> <i>Outsourcing</i>
Objectives:	<i>Business Expansion</i> <i>Modernization</i> <i>Workload Efficiency</i>
Functions:	<i>Infrastructure Development</i> <i>Installation Support</i> <i>Equipment Maintenance</i>

Hughes and United Defense Armaments Systems Division are bidding to take over the Naval Ordnance Station in Louisville, Kentucky. Hughes and UD plan to use the facility to retrofit and upgrade existing systems, including the Phalanx and rolling airframe missile. UD's Louisville operations will have to deal with various state and federal laws and other requirements as well.

Federal Government

A-76 Programs (All Services)

Type:	<i>Outsourcing</i>
Objectives:	<i>Cost Savings</i> <i>Workload Efficiency</i>
Function:	<i>All Functions</i>

These programs are ongoing and involve competition. The goal is cost savings.

Defense Logistics Agency

Type:	<i>Outsourcing</i>
Objectives:	<i>Better Business Practices</i> <i>Cost Savings</i> <i>Consumer Satisfaction</i> <i>Workload Efficiency</i>
Functions:	<i>Health Services</i> <i>Installation Services</i> <i>Support Services</i>

The Defense Logistic Agency's (DLA's) direct vendor delivery (outsourcing) program provides such services as pharmaceutical supplies, construction materials, and food supplies.

DLA also outsources child care for its Richmond employees through contract with a commercial provider.

Department of Energy Complex (Idaho)
Waste Management Privatizations
1988–1993

15th Annual U.S. DOE Low-Level
Radioactive Waste Management
Conference

The Hanford Backgrounder.

"Hanford's Private Sector Participation Initiative" the Department
of Energy, Richland Operations Office, November 1990

Type:	<i>Outsourcing</i>
Objectives:	<i>Business Expansion</i>
	<i>Cost Savings</i>
	<i>Modernization</i>
	<i>Workload Efficiency</i>
Functions:	<i>Installation Support</i>
	<i>Infrastructure Development</i>

The Department of Energy (DOE) must conduct its waste management treatment, storage, disposal (TSD), and auxiliary support activities in accordance with the Environmental Protection Agency's (EPA's) strict regulations on toxic materials, hazardous substances, and solid waste. With limited funding available, DOE must select the most economical treatment alternatives. Privatization initiatives are being planned and executed throughout the DOE complex. These initiatives include privatization of steam generation, analytical laboratory services, laundry decontamination, metal-working, recycling of scrap metal, and atmospheric and aquatic monitoring systems. These initiatives have the potential to reduce DOE's costs—both up-front capital costs and life-cycle costs. Also, privatization will bring more resources—experienced personnel, private funding, and the latest commercial technology—to bear on DOE's waste management problems.

Office of Personnel Management

A Privatization Primer: Issues and Evidence, by Carla E. Tighe et al., CNA Research Memorandum 96-123, 31 October 1996

Type: ESOP
Objectives: Business Expansion
Better Business Practices
Job Creation
Job Preservation
Function: Infrastructure Development

Federal agencies rely on the Office of Personnel Management (OPM) to conduct background investigations and training. In response to a decision to close its Background Investigation Unit, OPM proposed to privatize its operation through an employee stock ownership program (ESOP). The ESOP would offer employees increased financial opportunity, a smooth transition to private employment, and incentives to perform well. OPM is a good candidate for privatization because the services it provides are in demand, not only in the federal government, but in the private sector as well. It has the potential to become a strong commercial enterprise.

Government Services Administration

Privatize the General Services Administration Through An Employee Buyout, by Ronald D. Utt, PhD. The Heritage Foundation, May 26, 1995

Type: ESOP
Asset Sales
Objectives: Better Business Practices
Cost Savings
Defined role of Government
Modernization
Functions: Property Maintenance
Non manufacturing Services

The General Services Administration (GSA) employs 18,500 people and has a legal monopoly on basic support services to government offices and office workers. GSA operates on a budget of \$200 million but controls between \$45 and \$50 billion in government purchases and leases of buildings, building services, office supplies, telecommunications, and computer equipment. The goal is to have a centralized buying agent who could negotiate better prices for the government. This reform would create taxpayer savings through reductions in construction and maintenance costs, building rents, and prices paid for supplies and equipment.

Privatization of these functions would free GSA to provide other services, such as security for government property and staff. If GSA were to adopt the author's suggested reforms, it would have to compete with the private sector suppliers, separate into enterprises along major functional lines, and privatize each new entity. Most of the current GSA employees would be retained in the new organization.

Over the last decade, GSA has contracted out a number of its activities to private companies and has reduced its workforce dramatically. For those services contracted out, the savings were substantial; some bids were up to 50 percent less than the government's cost estimate. Other areas of potential savings from privatization include construction costs, rent reduction, office supply distribution, and equipment modernization.

Fannie Mae and Freddie Mac

The Heritage Foundation
John S. Barry, Policy Analyst
Committee Brief No. 27
24 July 1996

Type:	<i>Asset Sales</i>
	<i>Better Business Practices</i>
	<i>Business Expansion</i>
	<i>Consumer Satisfaction</i>
	<i>Defined Role of Government</i>
Function:	<i>Financial Services</i>

The original mission of Fannie Mae and Freddie Mac, to establish an efficient secondary mortgage market, has been met. Congress had established a relationship with the companies because it is responsible for safeguarding the interests of taxpayers. These Government-Sponsored Enterprises (GSEs) receive government subsidies, undertake a public mission, and place taxpayers at risk. Increasingly, GSEs are venturing into new areas of operation that pose a major risk to taxpayers. Also, the large number of transactions carried out by Fannie Mae and Freddie Mac have significant effects on other credit markets because consumers forego other investment activities when they are offered lower mortgage rates. These GSEs have a conflict of interest in that they must earn profits for shareholders and, at the same time, fulfill their public mission without undue risk to taxpayers. Fannie Mae admits that the value of its stock depends largely on federal government subsidies. Thus, under the current structure, GSEs constitute a transfer of wealth from the taxpayers as a whole to the relatively few GSE

stockholders. Experts agree that there is no rationale for further government intervention in the mortgage credit markets. The suggestion before Congress is to break the link between these GSEs and the federal government and turn these profitable operations over to the private sector.

Naval Petroleum Reserves Elks Hill #1, Buena Vista Hills #2 California

Source: "U.S. to Sell Elk Hills Oil Field Stake in Segments," Energy News 8 October 1996

Type:	Asset Sales
Objectives:	Balance Budget Business Expansion Cost Savings Defined Role of Government
Function:	Installation Services

A bill was passed authorizing the sale of the reserves in the summer of 1996. Chevron later purchased a 20-percent interest in the property and exclusive rights to develop oil. The reserves were established in the early 1900s to provide oil for Navy ships. In 1977, the reserves were transferred to the Department of Energy. Annual cash flow for Elk Hills alone is \$300 million. The government currently manages the site, but Bechtel has a government contract to manage oil production. The reserves are projected to bring in a net revenue of \$1.6 billion. The combined savings from the reserves would be between \$1 and \$2 billion. The sale of the Elk Hills reserve is expected to be one of the largest ever undertaken by the privatizations U.S. government.

Information for the next six initiatives was provided by Joyce Yamat, Legislative Assistant for the Congress of the United States, House of Representative, November 1996.

National Helium Reserves

Type:	Asset Sales
Objectives:	Balanced Budget Cost Savings Workload Efficiency
Function:	Installation Services

A bill authorizing the sale of the National Helium Reserves (NHR) was passed in October 1996. Established in 1925, NHR is \$1.4 billion in debt. The federal government would save \$16 million by 2000, by selling the processing and storage

facilities alone. NHR controls 90 percent of the nation's helium reserves. The program would operate more efficiently and cost-effectively if it were transferred to the private sector.

Power Marketing Administration

Type: *Asset Sales*
Objectives: *Balanced Budget, Cost Savings*
Function: *Installation Services*

The sale of the Power Marketing Administration (PMA) would save taxpayers roughly \$280 million a year. In April 1996, a bill was passed authorizing the privatization of the Alaska Power Administration. Proposals to sell three other PMAs—Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—are in the President's 1996 budget proposal. The revenues from selling the assets of the PMAs could bring in an estimated \$11.5 billion. The U.S. electric industry is becoming more competitive, and there is potential to reduce the cost of power and increase service reliability.

United States Enrichment Corporation

Type: *Assets Sales*
Objectives: *Balanced Budget*
Cost Savings
Business Expansion
Function: *Installation Services*

The privatization plan for USEC was submitted to Congress in 1995. The proposed selling price was \$1.5 billion. The Energy Policy Act of 1992 established the Uranium Enrichment Corporation as a federal corporation for eventual privatization.

United States Postal Service

Type: *ESOP*
Objectives: *Business Expansion*
Better Business Practices
Cost Savings
Consumer Satisfaction
Workload Efficiency
Function: *Installation Services*

The United States Postal Service (USPS) may be a candidate for government asset sales. Report show that the USPS has not met customer expectations, and in fact

mail delivery is 15 percent slower now that it was 25 years ago. Worker productivity is declining, and management priorities have resulted in truckloads of undelivered mail. Customers report that post office hours are inconvenient and people are abandoning USPS service in favor of telephones, facsimile machines, cable, computers, and the like. Many believe privatization would bring about lower prices and better service and that the government should privatize USPS as an employee owned company.

AMTRAK

Type:	<i>Asset Sales</i>
Objectives:	<i>Outsourcing</i>
	<i>Balance Budget</i>
	<i>Business Expansion</i>
	<i>Cost Savings</i>
Functions:	<i>Installation Services</i>

Since its creation in 1970, the National Rail Corporation (AMTRAK) has cost taxpayers over \$15 billion. Conceived as a 2-year program that would become self-sufficient, AMTRAK began with a one-time grant of \$40 million. Amtrak could need as much as \$10 billion over the next 5 years to maintain its current level of service, and its need for federal assistance will continue to increase because of legislative interference and burdensome regulation. Current proposals include phasing out federal subsidies, changing inappropriate labor regulations, and eliminating government interference with operating management.

Federal Bureau of Prisons

Type:	<i>Outsourcing</i>
Objectives:	<i>Better Business Practices</i>
	<i>Business Expansion</i>
	<i>Cost Savings</i>
	<i>Modernization</i>
	<i>Workload Efficiency</i>
Function:	<i>Social Service.</i>

Many have proposed that the Federal Bureau of Prisons conduct studies and, where feasible, contract out some of its prison facilities. Federal prisons are operating under limited capital budgets and other fiscal constraints. They are operating at as much as 51 percent above capacity. As a result, they are overcrowded, and there is limited funding for new constructions. Studies show that private prison companies can construct and manage prisons for as much as 20 percent less than the government can. The U.S. Marshall Service contracts with

private firms to run some minimum security facilities. Two-thirds of detention centers at all levels of government are privately run. The President's budget includes proposals to privatize the management of most pretrial and minimum and low-security facilities that are now under construction.

State and Local Governments

Dulles Greenway

"Road for Today: A Vision for the Future," by
Charles E. Williams
Construction Business Review, March-April 1994

Type:	Public/Private Partnership
Objectives:	Business Expansion Consumer Satisfaction Defined role of Government Modernization
Functions:	Infrastructure Development Property Maintenance

A public-private partnership allowed the Dulles Greenway to be built much sooner than it could have been built by the state. The Dulles Greenway is an example of public-private cooperation in the development of new infrastructure. It is a 14.1-mile extension of the existing state-owned Dulles Toll Road which connects Dulles International Airport to Leesburg, Virginia. It is the first private toll road to be built in Virginia since 1816. This public-private partnership, which was first proposed in 1988, overcame many hurdles before funding was achieved. Legislation allowing private toll roads had to be passed, state prohibitions had to be removed, and public policy to ensure safe, economical construction had to be encouraged. After this legislation was in place, the Virginia Department of Transportation (VDOT) had to approve construction plans. The State Corporation Commission had to review all financial documents, approve the toll rates, and grant the 42.5-year franchise to operate the road. Agreements with Loudoun County, the Metropolitan Washington Airports Authority, and the Town of Leesburg had to be obtained as well.

Roughly one-third of the roadway was leased from the Metropolitan Washington Airports Authority. Another third was donated by landowners as part of rezoning agreements, and the remaining third was purchased from the property owners. The Dulles Greenway project was planned with environmental and community needs in mind. This commitment to the community and the environment represents a dramatic departure from the traditional approach to road building.

The construction of the Dulles Greenway toll road was completed six months ahead of schedule, and the road opened on September 29, 1995.

Indianapolis International Airport

*The Indianapolis Experience:
A Small Government Prescription
for Big City Problems, January 1996*

Type:	Asset Sales
Objectives:	Better Business Practices
	Business Expansion
	Cost Savings
	Consumer Satisfaction
	Profit
Function:	Property Maintenance
Infrastructure:	Development

In the face of falling revenues and increased expenses, the Airport Authority board was urged to solicit proposals for managing the Indianapolis airport system. The goals were to cut operating costs, provide more revenue to both the airports and the airlines, improve customer service, and hold down ticket costs through increased competition and service. The Airport Authority received several proposals and chose a private vendor in early 1995. Today, Indianapolis International is the largest privately managed airport in the United States in terms of passenger traffic.

The contractor hired the entire airport staff and predicts that airport operating costs will fall by 25 percent. Prices are not to exceed those of competitors in the greater Indianapolis area. The contractor guarantees a reduction in cost per passenger over the next 10 years.

Indianapolis Wastewater Treatment White River Environmental Partnership (WREP)

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Modernization
Profit
Workload Efficiency
Environmental Cleanup
Function: *Installation Support*

The city's two wastewater treatment sites employ two-stage biological-roughing filters, pure oxygen-activated sludge treatment, and final effluent filtration to clean municipal water before releasing it into the White River. The combined capacity of the two sites is 250 million gallons per day. The city owns the buildings and equipment and is responsible for modernizing and capital improvements. A local private water supply utility, WREP, is responsible for corrective, preventative, and predictive maintenance. WREP supplies the labor, and the city provides the parts, but in actuality, WREP also keeps the inventory and buys supplies and the city pays those bills. Seven firms submitted statements of qualifications (including the in-house management staff). In the first year of operations, the new partnership cut costs by 40 percent and produced savings of \$12.5 million. Employee accidents fell 70 percent, and effluent violations fell 86 percent. The city and the contractor split the profits. It was noted that locating small plants near larger facilities was very economical because people could be used more effectively.

Other Initiatives

Maritime Prepositioning Program

*Privatization Resource Guide and Status
Report Part II 13 February 1995; Privatization
Initiatives National Performance Review and OMB*

Type: *Public Private Venture*
Objectives: *Cost Savings*
Workload Efficiency
Functions: *Installation Support*
Depot Maintenance
Property Maintenance

This 13-ship fleet, which is owned, crewed, and maintained by the private sector, was designed to deploy equipment and supplies for the Marine Corps. In times of

crisis, the ships sail to ports near the crisis and off-load cargos of equipment to Marines for use in combat or related missions.

Military Member, Dependent, and Retiree Medical Care

Type: *Public/Private Partnership*
Objective: *Consumer Satisfaction*
Workload Efficiency
Function: *Social Services*

DoD contracts with private doctors to provide health services in places where eligible service members, their families, and military retirees cannot receive medical care from military hospitals. The contractor of this billion dollar program provides claims processing and provider-qualification services that reduce the administrative burden on the military services.

Day Care Centers at the Pentagon and Tracy Depot, California

Type: *Public/Private Partnership*
Objective: *Business Expansion*
Consumer Satisfaction
Cost Savings
Functions: *Social Services*

The day care centers at the Pentagon and Tracy Depot are owned and operated by private day care providers. The buildings in which the services are provided are on leased government land, but were built with private money. Users pay the provider directly. The provider guarantees that federal employee dependents will have priority in placement and reduced rates. Day care slots that are not needed for dependents of federal employees can be sold to users in the private sector.

DoD Utility Systems

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Consumer Satisfaction
Modernization
Functions: *Installation Support*
Infrastructure Development

DoD has privatized power generation, energy savings programs, and water treatment at a number of bases. It has purchased utility services from private, as well as public, providers. Utility systems have been transferred to communities and utility companies in exchange for continued service, upgrades, or cost reductions.

801 Leased Family Housing Program

Type: *Public/ Private Partnership*
Objectives: *Business Expansion*
Cost Savings
Workload Efficiency
Infrastructure Development
Functions: *Installation Support*
Property Maintenance
Social Service

Under this program, more than 12,000 military family housing units have been built, both on and offbase. The units were built, financed, and in some cases operated by private developers.

802 Rental Guarantee Program

Under this program, private companies built, financed, and operated, on-base housing for military families. The owner collects rent directly from qualified tenants, and the government guarantees a specific occupancy rate.

Pershing Hall, Paris France

Post World War I monument to
General Pershing and American
Forces

Type: *Public/Private Partnership*
Objectives: *Cost Savings*

The Department of Veterans Affairs recently signed a 99-year lease with a private sector developer to repair and operate Pershing Hall, which was built just after World War I. Congress authorized the Department to grant the lease in exchange for rehabilitation of the building, future lease payments, and free administrative space. The Department may also use the building for ceremonial purposes throughout the term of the lease.

Veterans Affairs (Day Care)

Washington, D.C.

New Haven, Connecticut

Type: *Public/Private Partnership*
Objectives: *Business Expansion*
Cost Savings
Consumer Satisfaction
Functions: *Installation Support*

Contracts were awarded to two day care providers to build and operate centers on land owned by the Department of Veterans Affairs. In each case, the land was leased for 35 years for a nominal fee. The providers are required to build day care centers that will accommodate a specified number of federal employee dependents at set rates. Day care slots that are not needed for the dependents of federal employee can be sold to people in the private sector, who will pay market rate tuition. The Department did not give the contractors any guarantee on usage or debt service.

The following ten examples are taken from:

Solution to Capital Budget Shortfalls
A Primer for Public-Private Ventures, 1 June 1992,
T.L. Neve, R.L. Crosslin, and
J.E. Petersen (Logistics Management Institute)

U.S. Army Corps of Engineers

Type: *Public/Private Partnership*
Objectives: *Business Expansion*
Cost Savings
Profit
Function: *Social Services*

The U.S. Army Corps of Engineers (USACE) has been using public-private ventures (PPVs) for several decades, primarily at recreation areas it controls in collaboration with public works facilities. USACE leases water and land rights to private-sector entrepreneurs for extended periods as part of a concession agreement that allows the entrepreneurs to construct, own, and operate those facilities at their own risk. These PPV facilities are open to the general public since they are not on military installations. In some cases, a portion of the revenues is shared with the government. USACE has some guidelines that must be followed by the private concessionaire and its patrons; otherwise, the concessionaire is free to provide facilities and services.

Memphis Naval Air Station, Tennessee

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Profit
Function: *Infrastructure Development*

In 1986, the Navy leased government land to a developer-operator who then financed and constructed the building. The Navy agreed to lease the facility for the period of the contract. At the end of the contract, the building will become the property of the government.

Naval Submarine Base,
New London, Connecticut

Naval Education and Training Center,
Newport, Rhode Island
BOQ

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Business Expansion
Consumer Satisfaction
Workload Efficiency
Function: *Education & Training*

The Navy signed a long-term contract allowing a developer to design and construct BOQs at New London and Newport. The contractor may operate the BOQ for 32 years. The Navy guarantees a minimum 70-percent annual occupancy rate; otherwise, the entrepreneur assumes all risks of profit or loss. Because the risk is shared, the developer-operator was able to obtain more favorable financing for the project. The contractor is allowed to rent unoccupied rooms to retirees, reservists, active duty family members, and DoD civilians.

Nellis Air Force Base, Nevada
BOQ

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Function: *Infrastructure Development*

The Air Force will lease 15 acres of land to a developer for 40 years for the sum of \$1.00, and the developer will finance, construct, own, and operate the BOQs. Unlike the Navy, the Air Force will not guarantee the facility's occupancy rate. Air Force contracting officers worked hard to convince the private sector that the risk of a high vacancy rate is minimal.

Department of Veterans Affairs

Houston, Texas

Enhanced-use leases for PPS

Type: *Public/Private Partnership*
Objectives: *Cost Savings*
Consumer Satisfaction
Function: *Infrastructure Development*

Special legislation gives the Department of Veteran Affairs (VA) wide latitude to negotiate long-term leases to obtain facilities and services for the Department and its clients. The legislation allows a private developer-operator to finance, construct, own, and operate administrative office space on the VA's land. The contractor is also allowed to build, own, and operate private facilities on the unused part of the parcel, provided it meets specified guidelines.

Department of Transportation

Type: *Public/Private Partnership*
Objective: *Business Expansion*

The Department of Transportation (DOT) assisted the Washington Metro Area Transit Authority in developing a mixed-use facility above the Farragut North Metro Station in Washington, D.C. Air rights were leased to a private developer-operator who constructed and now operates an office building and retail shop complex above one of Washington's busiest subway stations. This type of PPV project fosters economic development of the local area.

University Research & Technology Parks

California and Maryland

Type: *Public/Private Partnership*
Objective: *Consumer Satisfaction*
Functions: *Research, Development,*
Test & Evaluation

State PPVs on university land have provided additional research, conference, and office space for school use in exchange for private development that may work in synergy with faculty research interests. The private developer leases the space to research-and technology-related companies and assumes the financial risk over the term of the contract.

City of Philadelphia

Golf courses—Mid 1980s

Type: *Public/Private Partnership*
Objective: *Cost Savings*
Profit
Function: *Social Services*

The local government contracted with a private company to operate and maintain five city courses that had been operating at a loss. The contract included a capital improvements escrow account (a percentage of gross revenues), and the contractor ran the courses at his own risk. The contractor paid the city a percentage of gross revenues. Other local governments have also contracted with entrepreneurs to upgrade and operate one or more of their golf courses, with little or no financial risk to the community.

City of Racine, Wisconsin

Marina along the harbor

Type: *Public/Private Partnership*
Objectives: *Business Expansion*
Profit
Function: *Social Services*

The local government leased the rights to develop and operate a marina along its harbor for a one-time cash payment from the developer. Ancillary development has also occurred on the site, including retail shops and restaurants. All the facilities were developed and are operated by private entrepreneurs with private funds. The county receives a percentage of the annual gross revenues from all these operations. The county's revenues from this marina, which have far exceeded the cost of contract administration and oversight, have helped to pay for other county services.

International Initiatives

British Telecom

"British Privatization—Taking
Capitalism to the People"
by John Moore *Harvard Business
Review*; January-February 1992

Type:	Asset Sales
Objectives:	Employee Stock Ownership Consumer Satisfaction Defined role of Government
Functions:	Property Maintenance Installation Support

British Telecom (BT), which was sold in 1984, was the largest public buyout ever. The practical need was to sell the massive offering of BT, and the political objective was to change the public attitude about small shareholders owning former public utilities. The company could have sold nine times the number of shares it had to offer. Two million people wanted to buy shares in British Telecom, and more than 90 percent of BT employees bought shares in their own company. Privatization resulted in many improvements. The overall call-failure rate dropped from 1 in 25 to 1 in 200, and there are no more waiting lists to have telephones installed. BT's public telephones are more accessible—and most of them work. Now 96 percent of the telephones work compared to 75 percent in the 1980s. One of the government's principal roles in the implementation of privatization is to make and enforce the rules that keep the market open and competitive. British Telecom is required by license to provide the 999 emergency service and to maintain public pay telephones even in rural areas where it is not economical to do so. With regard to pricing, there is a formula that serves as a stand-in for what real competition would do, and is based on the retail price index, plus or minus an adjustment derived from a group agreed-upon factors, such as maintenance costs, service quality, and reasonable profit levels.

U.K. Military Privatization

"Hunting Award Highlights
U.K. Privatization Trend" by
Carole A. Shifrin, *Aviation Week
& Space Technology*/ 1 March 1993

Type:	<i>Outsourcing</i>
Objectives:	<i>Cost Savings</i>
	<i>Job Creation</i>
	<i>Modernization</i>
	<i>Profit</i>
	<i>Workload Efficiency</i>
Function:	<i>Education & Training</i>

Britain awarded a contract to Hunting Aircraft to train Royal Air Force (RAF) and Navy pilots at one combined facility. Hunting will operate the Joint Elementary Flying Training Squadron at RAF Topcliffe, in effect merging the separate RAF elementary flight training squadron, currently at RAF Swinderby, with the navy's initial pilot training unit at Topcliffe. The 5-year contract could be worth as much as 20 million pounds (\$29 million) to Hunting. The company competed against seven other bidders, including British Aerospace and Oxford Air Training School, and offered to train on five different aircraft types. The Defense Ministry was seeking the most cost-effective proposal consistent with the services' requirements. The RAF Support Commands' valuation of the proposals included a fly-off last April at the Central Flying School at RAF Scampton.

Hunting will conduct ground school and flight training. Its program will be very similar to the 24-week program currently offered by both services. RAF student pilots will receive 54 hours of flight instruction before going on to basic flight training at RAF Linton-on-Ouse or RAF Cranwell. Royal Navy student pilots will receive 62 hours of flight instruction before graduating to helicopter training at RNAS Culdrose. A few navy student pilots are generally selected for fixed-wing training with the RAF and will eventually fly the navy's Sea Harriers.

Hunting is preparing to take over the supply of civilian manpower at the Central Flying School under another 5-year task management contract. Under the contract, Hunting will recruit more than 200 people to do first and second-line maintenance on 35 Bulldogs and Shorts Tucano advanced training aircraft. With the latest awards, Hunting will employ close to 1,200 people at nine RAF and Royal Navy locations. One of Hunting's largest contracts is at RAF Cranwell, where it performs maintenance for the RAF's Tucanos and other tasks. Almost 90 percent of the employees who work for Hunting on these contracts are ex-military personnel.

French Aerospace Industry

"France to Consolidate
Aerospace Industry"
by Pierre Sparaco/French
Aviation Week & Space
Technology/ February 26,
1996

Type:	Public Private Venture
	Asset Sales
Objectives:	Cost Savings
	Business Expansion
	Better Business Practices
	Job Preservation
	Defined role of Government
	Modernization
	Workload Efficiency
Functions:	Installation Services
	Research
	Development
	Test and Evaluation

France is consolidating its state-controlled aerospace companies, thus paving the way for a wide-ranging industry privatization plan and additional European alliances. Over the next few years, Aerospatiale and the Thomson group will merge. This merger will eliminate excess production capacity, enhance competitiveness, and ultimately minimize the government's involvement in the industry. In the future, additional alliances with European partners are expected. The Thomson armament defense electronics group is scheduled to be privatized by the end of 1996.

The French government has asked that Aerospatiale and Dassault Aviation to negotiate a merger agreement in the next two years. The Aerospatiale-Dassault consolidation move will temporarily strengthen the French government's role in the industry. However, the resulting unified group is expected to be privatized. France intends to maintain a major role in the European aerospace industry and world market. It must strengthen its aerospace business in order to sustain employment. "Such a consolidation move is scheduled to enhance the French aerospace industry's overall strength and efficiency against competitors such as huge U.S. groups" according to Budget Deputy Minister Alain Lamassoure.

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